

Initial Comments to the Illinois Commerce Commission on the “Performance and Tracking Metrics Workshop Summary” Report to the Commission

Submitted by Advanced Energy Economy

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Introduction

Advanced Energy Economy (AEE) is pleased to provide the following initial comments in response to the Illinois Commerce Commission’s (ICC) “Performance and Tracking Metrics Workshop Summary” Report to the Commission. AEE is a national association of businesses that are making the energy we use secure, clean, and affordable, and we were actively involved in shaping and helping to pass the Climate and Equitable Jobs Act, or CEJA, finalized as Public Act 102-0662 in Illinois.

AEE first thanks the ICC and Rocky Mountain Institute for their efforts preparing this report, especially under such a short timeline, and for working hard to reflect the range of inputs provided by stakeholders on this important topic. AEE strongly supports well-designed performance metrics as part of a broader regulatory framework that seeks to better align utility financial incentives with public policy goals and customer needs and interests, and we have participated in regulatory proceedings around performance incentives and performance-based regulation (PBR) more broadly in states across the country. We also see performance incentives and PBR as critical to achieving the overall climate and clean energy goals of CEJA.

General Comments on Staff Recommendations

In these comments, AEE distinguishes between performance metrics, the measurement of utility performance against specific criteria, and performance incentive mechanisms (PIMs), which combine performance metrics with financial rewards and penalties. In some cases, the Commission may wish to track utility performance without an associated incentive. These “tracking metrics” are useful when quality data to form baselines does not exist or a metric is measuring performance associated with a lower priority. In other cases, such as performance toward high priority goals or where achieving a goal requires actions that run counter to existing regulatory incentives, PIMs are more likely to be effective.

Broadly, AEE sees this report on performance metrics and incentives as an important and positive first step towards defining the overall regulatory framework that will align utility business opportunity with public policy goals and customer needs in Illinois, and we generally agree with the overall recommendations. In particular, we agree that PIMs should help support achievement of state policy goals, incentive outcomes that are not otherwise rewarded within the overall ratemaking paradigm, and result in net benefits to customers.

We also support the focus on outcomes versus activities. In the broader context of PBR, we see PIMs as providing utilities with meaningful earnings opportunities that can at least partially offset foregone future earnings associated with cost-of-service regulation. This is important to encourage utilities to seek out the full range of possible solutions, many of which will include utilities procuring services from customers and third parties in lieu of deploying traditional utility capital solutions or developing rate designs and programs that will similarly reduce traditional utility capital investment.

Finally, while we appreciate the wide range of suggestions for specific performance metrics that were provided by stakeholders, we would reiterate a point that we made during the workshop process: having a smaller

number of incentive-bearing performance metrics (again, PIMs) will help ensure that the overall PIM plan is manageable and effective. This is especially important given that CEJA relies heavily on PIMs and PBR to achieve its overall goals. Establishing too many PIMs risks having achievement of one metric being at odds with the achievement of others or double counting (and rewarding) the same benefits, and it also risks dividing the financial reward into smaller increments that may fail to adequately motivate the utility. We therefore recommend that utilities propose no more than 4-6 PIMs, which have the potential to cover multiple outcome categories as defined in CEJA. As described further below, we believe that peak load reduction is one such performance metric. Tracking mechanisms, however, need not be subject to such limitations and could cover a wide and expansive variety of performance goals. Tracking metrics do not have an associated financial incentive that impacts both utilities and customers, and there are no concerns with double counting or the quality of available data.

Specific Comments

- **Re: Basis Point Range for Performance Metrics (p.9)**
 - o We support consideration of both positive incentives and penalties. They need not be symmetrical, but as an initial matter, it is reasonable to consider both. However, understanding that utilities are only required to adopt performance metrics if they choose to file multi-year rate plans, the performance metrics and associated incentives must be attractive enough to utilities for them to opt in. Thus, incentives that are mostly positive or positive-only may be necessary for voluntary participation. If positive-only incentives are used, metrics should be ambitious enough to ensure that the metrics cannot be achieved by chance or business as usual.
 - o We recommend that the ICC consider converting basis points into actual dollar amounts when implementing performance metrics. Since one of the purposes of performance metrics is to provide earnings opportunities that are not dependent on the level of utility capital investment, converting them to fixed dollar amounts will avoid this conflict between performance metric achievement (e.g., peak load reduction or increased DER deployment, and deploying additional capital to increase rate base). It will also avoid the potential for unintended consequences, such as large increases in rate base (such as the addition of a new substation) resulting in increases in performance incentive payouts for unrelated metrics, such as customer service or peak load reduction, for instance.
 - o The size of a financial award should attempt to share the net benefits (estimated using a BCA as described below) of increased performance between utilities and customers. To be effective, the incentive also needs to be higher than what the utility would earn by pursuing business as usual. But to ensure that customers are the primary beneficiary, an incentive should never be greater than 50% of the anticipated benefits.
 - o In estimating the potential net benefits associated with performance on a metric (resulting benefits minus the cost of the incentive), we encourage the commission to use established benefit cost tests. While it is important to measure benefits on a broader societal scale that includes carbon benefits (through the societal cost test), the sizing of the incentive should also keep in mind that benefits such as carbon reductions are not represented in utility rates. Some societal benefits will accrue to customers outside of their utility bill that will not result in compensatory reductions in utility costs. Using the utility cost test as a second measure can be helpful as it will quantify the costs paid by customers and the ultimate impact on the utility revenue requirement. A performance metric should not be required to pass the utility cost test (a metric would not pass if utility-related costs are greater than utility-related benefits) so long



as it passes the societal cost test (societal benefits are greater than societal costs). However, the utility cost test can help track and weigh the PIM against the impact on overall utility bills. *The National Standard Practice Manual for Benefit-Cost Analysis of Distributed Energy Resources*¹ provides a framework and additional guidance for how to apply multiple cost tests and could be adapted to evaluate PIMs.

- o If not addressed elsewhere, the incentives should be applied after any Earnings Sharing Mechanism (ESM). If a utility is already at the upper bands of its ESM limits (e.g., if a utility can only achieve +/- 100 basis points from its target allowed return on equity before it needs to start sharing additional profits or losses with customers) due to savings realized compared to its rate plan, and then it also has outstanding performance in its PIM plan, the utility may need to return some of the incentive to customers so that it does not over earn. This makes the incentive to perform subordinate to the existing incentives to increase efficiency in rate plans and weakens the performance incentives overall. Instead, the earnings associated with the performance plan should not be subject to the ESM's earning limits.
- o The amount of basis points available to the metrics plan (20-60) is small, especially when compared to PIMs in other states, such as in New York (up to 100 positive basis points) and in the United Kingdom (+/- 300 basis points). The corresponding financial rewards or penalties may not be enough to adequately influence utility behavior, especially if the incentive has to compete with traditional profit centers (such as deploying capital). The incentive needs to be more valuable than continuing business as usual to actually be motivating. We therefore encourage the ICC to utilize the full 60 basis points from the outset, but would also flag that the statutory cap could limit the effectiveness of this metrics plan.
- **Re: Tracking Data Requirements and Timeline Impacts (p. 9)**
 - o The first item in the minimum statutory requirements states that each PIM must include one year of independently verifiable tracking data to establish baselines. For some PIMs, the utility may already collect this data, so the only step needed is independent verification. However, if a PIM requires data that the utility does not currently collect, then the implementation of the PIM would be delayed for at least one year prior to the metric going into effect. This suggests that once a PIM plan has been decided, it may need to go into effect in phases, depending on the status of existing data and baselines. There is also a chance that a utility may want to decrease its performance during a baseline setting period, or more likely, avoid improving performance, so that performance improvements are easier to hit once an incentive is at stake. We also note that for tracking metrics which result in no incentive, no delay would be needed before they go into effect.
- **Re: Data Access (p. 30)**
 - o Although it received relatively little attention in the staff report, we would like to emphasize the critical role that data access has in a modern, flexible and resilient grid. While it may not need to be the subject of a PIM, at a minimum, tracking appropriate performance on data access, whether it is access to customer data or system data, will be helpful. More generally, data access should be seen as a means to an end to achieving virtually all other possible performance outcomes.

¹ Available at: <https://www.nationalenergyscreeningproject.org/national-standard-practice-manual/>



- **Re: Suggested Guidance and Principles on How the ICC May Decide on Appropriateness of Performance or Tracking Metrics (p. 31)**
 - o AEE finds the report's guiding principles on p. 31 to be adequate to direct utilities to develop effective, outcome-based PIMs and tracking metrics. However, we recommend that ICC staff consider two further principles that utilities should consider when creating PIMs. First, we recommend a guiding principle focused on the multiplying effects of complimentary PIMs. As stated in our October 31 comments, complimentary metrics are critical to successful implementation to greater performance-based regulation. It is imperative that each utility develop PIMs that are not contradictory nor require the utility to sacrifice satisfying one metric in order to satisfy another. Therefore, AEE believes that this guiding principle is critical to the establishment of PIMs that can be successfully implemented. Complimentary PIMs also have the potential to create multiplying effects that can result in further benefits to ratepayers and achieve the intended goals in CEJA.
 - o Second, AEE recommends that the ICC establish a guiding principle focused on the benefits of decarbonization. Many of the mandatory metrics in CEJA, such as the reliability and resilience metric, the peak load reduction metric, the affordability customer delivery service metric, and the interconnection metric present opportunities for utilities to incorporate clean energy technologies into plans to achieve these metrics. Through incorporating clean energy technologies into their plans to achieve these metrics, utilities can achieve optimum outcomes while also making progress in achieving the emission reduction goals required by CEJA.
 - o We recommend that the Commission prioritize these guiding principles from 'most important' to 'least important' to give utilities a clear understanding of how they should develop metrics. If utilities are unable to fully satisfy the expectations of all the guiding principles, AEE believes that utilities should do so in a way that minimizes compromising the most critical guiding principles for metrics. We believe that doing so also ensures that the proposed performance and tracking metrics that the utilities create will best align with the intended outcomes prescribed in CEJA.
- **Re: Selection of Performance and Tracking Metrics (p. 32 and subsequent tables)**
 - o Within the **Customer Affordability** metric, AEE supports limiting energy burden for low-income consumers, but also encourages ICC staff to explore opportunities for incentivizing decreases in the utility revenue requirement collected from everyone, not just the distribution of it, that are not currently present in the existing regulatory framework. Otherwise, costs could go down for low-income customers but up for everyone else.
 - o AEE supports an **Interconnection** PIM, and one that incorporates DER deployment more broadly. Thought should be given to what the appropriate details of this performance metric should be, such that it is associated with the desired outcome(s) that are a result of improved interconnection and DER integration.
 - o While AEE believes that **Reliability & Resiliency** are incredibly important, and becoming more so, especially in light of extreme weather events and expectations for electrification of additional end uses, we urge caution when considering the design of PIMs for reliability and/or resilience. There should be expectations for a reliable and resilient system absent the use of PIMs, such that the PIM should encourage either more cost-effective achievement of the reliability and resilience metrics, or as suggested by some parties and stated in CEJA, a focus on historically underserved or disadvantaged communities. With that context:
 - AEE recommends that ICC staff add a third recommendation to the Reliability and Resiliency metric, to have utilities consider how they can use non-traditional grid



investments to improve reliability and resiliency. Investments such as non-wires alternatives, increased incorporation of distributed energy resources (DERs), implementation of demand-side management and demand response programs, and incorporation of microgrids can be cost-effective and clean alternatives to traditional grid investments. These investments can delay the need for investments in substations and the transmission system, and lower the need for expensive investments such as undergrounding transmission and distribution network wires. AEE believes it is imperative for utilities to incorporate these technologies into their investments to ensure that all options are taken into account as utilities seek to meet these metrics.

- In addition, use of localized System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) metrics could be helpful here, though they should be mapped according to the electromechanical topology of the grid rather than the underlying community. Reliability results from the physical nature of the grid, which will not map perfectly to communities. Once problem circuits are identified first, then those that serve or partly serve identified communities could be prioritized.
- o AEE strongly supports the development of a **Peak Load Reduction** metric. Peak load growth, whether via local peaks or system-wide peaks, is a major driver of investment, and therefore cost, for utilities. This performance metric, therefore, has significant potential to address cost reduction opportunities. Such a metric will also impact multiple areas of utility performance and decision-making, including interconnection/integration of DERs, energy efficiency deployment, beneficial electrification, reliability, and emissions reductions. With regard to beneficial electrification, if not managed well, this has potential to drive up peak demand and impose additional costs on the system. Conversely, if managed well, beneficial electrification can provide significant net benefits to customers, lower average rates, and help the state meet its emissions reduction goals. As noted above, since peak load growth is a major driver of long-term utility earnings potential, having an appropriately designed performance metric related to peak load will be an important component of the overall PBR framework to be developed. In addition, we would note:
 - A well-designed performance metric for peak load reduction should encourage utilities to explore all possible solutions, which will include DER-based solutions as well as those more directly implemented by the utility, such as volt-VAR optimization.
 - AEE applauds the focus on peak load reduction rather than flattening the curve. While calls for flattening the curve may seem reasonable, there are drawbacks to increasing average usage or “valley filling”, whereas reducing peak demand will result in all of the benefits of an improved load factor metric without any of the drawbacks. First, increasing peak demand will result in new infrastructure costs. Valley filling neither increases nor reduces those costs, but rather spreads them out across more billing units (such as kWh charges). But increased energy usage does result in new costs not associated with the distribution utility, such as burning fuel and associated generation/supply costs. The focus should be on restraining peak demand rather than increasing usage in low usage periods (the exception is for valley filling when there are excess renewables on the grid, which have zero additional cost).
- o AEE supports a focus on environmental justice and disadvantaged communities as part of the overall ratemaking changes required by CEJA, and therefore supports the Grid Planning Benefits to Environmental Justice and Economically Disadvantaged Customers and Communities metric.



- o Regarding the **Grid Flexibility** metric, AEE recognizes the importance of grid flexibility, especially as it relates to variable renewable energy integration, whether with large-scale systems or smaller, distributed systems. Here we note that DERs, which provide other benefits, and may also be the source of that increased variability, can also be a significant source of flexibility. While we do not have specific recommendations at this time as to what the appropriate metric is, we reiterate the importance of focusing on outcomes. For example, a metric that tracks the amount of capacity or number of customers participating in a load flexibility program may not fully reflect how those customers and resources actually perform during events. AEE also observes that as written this metric may be somewhat duplicative of the Peak Load Reduction metric. The number of customers participating in a load shed program is a less useful metric than the amount of load shed during a grid event, which is virtually the same as a peak demand reduction program. Alternatively, flexibility could also refer to signals to increase usage when the grid has excess renewables. Or, there could be faster reacting signals for advanced inverters that can help balance the grid (frequency, volt/VAR, etc.).
- o Regarding the **Cost Savings** metric, this discussion is appropriate, and utility efforts around grid modernization and DER utilization should be seen within the context of providing net benefits to customers. We believe this tracking metric is closely related to peak load reduction, and also that it should be broad in scope, and not just consider options such as non-wires alternative projects, but also the use of improved rate designs and various utility programs for engaging customers who can deploy multiple types of DERs.

Conclusion

AEE again thanks the ICC and Rocky Mountain Institute for their critical work under tight timelines to produce this report. We and our member businesses look forward to continuing to participate in this process, and are more than happy to answer any questions about our above comments.

